

THE EXTENT OF BENCHMARKING IN THE SOUTH AFRICAN FINANCIAL SECTOR

Werner Vermeulen

Quality Improvement Unit, Central University of Technology

Abstract

Benchmarking is the process of identifying, understanding and adapting outstanding practices from within the organisation or from other businesses, to help improve performance. The importance of benchmarking as an enabler of business excellence has necessitated an in-depth investigation into the current state of benchmarking in South Africa. This research project highlights the fact that respondents realise the importance of benchmarking, but that various problems hinder the effective implementation of benchmarking. Based on the research findings, recommendations for achieving success are suggested.

JEL M10

1 Introduction

Benchmarking is the process of identifying, understanding and adapting outstanding practices from within an organisation or from other businesses to help improve performance. As the definition suggests, benchmarking is in fact establishing points of reference for measuring performance. In a sense, it is determining where you should be, given what other institutions in your industry have achieved (McShane, 1996: 21).

Benchmarking involves a process of comparing practices and procedures with those of the best to identify ways in which an organisation can make improvements. Thus new standards and goals can be set which will in turn help better satisfy the customer's requirements for quality, cost, product and service (Cook, 1995: 13). In this way, organisations can add value to their products and distinguish themselves from their competitors. The Japanese word *dantotsu* "striving to be the best of the best" captures the essence of benchmarking. Benchmarking is a positive, proactive process that aims to change

operations in a structured fashion to achieve superior performance.

According to Carey (1994: 120), benchmarking is a creative, adaptive, judicious application of a core understanding of what the best practices are for a department within a company. Once a company decides that it will undertake benchmarking, it must take a series of steps before setting out to explore companies with best practices. The first step is to study its own inner workings and processes, and to get a feel for what it is doing well, and what it is not doing well (Cook, 1995: 41). The next step is for the company to determine what aspects of the company as a whole or a department within the company it wants to improve, and what level of output or quality it is determined to reach. After recognising where improvement is feasible, the company can now seek out other companies who excel at that specific process or aspect. Once a company has taken these three crucial benchmarking steps, it can adopt certain core principles that have made the studied company a success, and apply them to its own unique framework and environment (Carey, 1994: 123).

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Why benchmarking is needed

According to Kempner (1993), the goal of benchmarking is to provide key personnel in charge of processes with an external standard for measuring the quality and cost of internal activities, and to help them identify where opportunities for improvement may reside. Benchmarking helps organisations to focus on the external environment and to improve process efficiency. Benchmarking is therefore a positive, practical process to change operations in a structured fashion to achieve superior performance (Camp, 1998: 10)

Elmuti and Kathawala (1997: 14) believe that benchmarking provides the following for a company:

- *a performance assessment tool* – companies know where they stand in relation to other companies;
- *a performance-enhancing tool* – benchmarking allows companies to learn new and innovative approaches, and provides a basis for learning;
- *a growth potential tool* – benchmarking can cause a needed change in a company's culture involving searching inside the company for growth; and
- *a job satisfaction tool* – because benchmarking is growing and changing so rapidly, benchmarkers have bonded together and developed networks to share methods, successes, and failures with each other.

In a study done by Holloway and Francis (1998: 122), it was found that respondents regarded the main benefit of benchmarking as establishing how the company is doing in comparison with similar companies, the implication being that moving up the league table is a valued end in itself.

As with other quality concepts, benchmarking should be integrated into the fundamental processes throughout an organisation, and should be an ongoing continuous process.

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Benchmarking in the financial sector

As in other financial sectors around the world, financial institutions in South Africa are currently undergoing substantial changes. Factors leading to these changes in the financial services include the following:

- competition from international banks;
- unemployment and uncertainty in job security;
- a failure of banks in all sectors to attract new monies from personal investors and savings are at their lowest levels in 15 years;
- amalgamations in all sectors of the financial industry;
- increased incidence of liquidation and curatorship of banks in the last few years;
- customers becoming much more sophisticated and demanding;
- closing down of branches in rural areas (with many banking employees losing their jobs); and
- too much of a focus on product quality in a sector in which most products are easy to copy (for example, free Internet banking), and in which achieving product quality excellence therefore does not necessarily sustain a competitive advantage.

Although there is an absence of empirical research into benchmarking in South Africa, some research has been done elsewhere in the world. A survey was conducted by Poulson (1996) to determine the use of benchmarking in the UK retail banking industry. The results revealed that, although there was a great deal of interest, few of the leading retail financial service companies were actually benchmarking. Competitor benchmarking was well established, but this concentrated on the comparison of financial results, which reveal little about the content of the business. Similarly, there is little evidence of internal benchmarking, despite the size of some of the companies represented, which

have the opportunity to benchmark with other departments, areas, regions or even businesses within a group of companies. Another survey by Zairi (1996) suggests that benchmarking in financial services, when attempted, has proven to be an extremely useful exercise. Among other things it indicates where best practice is likely to be found, and how it can lead to performance improvement.

Benchmarking analysis, whether it is in consumer lending or other operational areas, is critical in setting performance goals for an organisation. By reviewing the best practice of others in the industry, banks can improve their operations by measuring their success relative to their competitors' (Leath, 1998: 39). By improving key business processes through change and incorporating best practice, banks can ultimately achieve goals such as increased market share, better customer service, lower costs and higher levels of productivity.

Overall, therefore, benchmarking and the use of quality management principles have become increasingly important in the financial industry. The importance of benchmarking as an enabler of business excellence has necessitated an in-depth investigation into the current state of benchmarking in the South African financial industry.

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Problem statement and objective

This study begins with the assumption that the concept of benchmarking is relatively unplanned and not fully implemented in the financial sector of South Africa. The main objective of this study, therefore, is to determine the current state of benchmarking in the financial sector of South Africa. Other specific objectives are:

- to determine the reasons for benchmarking (if used);
- to highlight the difficulties experienced with benchmarking practice, and
- to make recommendations for the successful implementation of benchmarking practices in the South African financial sector.

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Methodology

The research component of this project is limited to the retail banking and life insurance sectors in South Africa. These sectors were chosen as the subject of investigation for several reasons. First, they form an important segment of the national economy, and are among the biggest employers of labour in South Africa. Second, assessment of quality is one of the primary means of gaining competitive advantage in financial sectors, and benchmarking allows an institution to determine how it is performing in relation to its competitors. Lastly, these two sectors have currently approximately 15 million clients, making them some of the largest service providers in South Africa.

A review of the literature revealed an absence of empirical research into benchmarking applications in the financial sector of South Africa. A descriptive research method was therefore chosen for this study. A descriptive study determines and reports the way things are. According to Gay and Diehl (1992: 235), the descriptive research method is popular due to its usefulness in investigating a variety of business and management problems.

The data for this study were collected mainly by means of a structured questionnaire. This method was used because the study population was geographically dispersed, because personal visits were expensive, and because telephone interviews are difficult. Also, a questionnaire helps respondents feel safe in giving honest feedback.

The structured questionnaire was sent to all registered retail banking and life insurance institutions (26 in total) on the Johannesburg stock exchange. A response rate of 61 per cent (16 institutions) was obtained, which can be regarded as representative of the total population. It can also be noted that all the major banks and life insurance companies participated in the research project. Of the 39 per cent (10 respondents) who did not take part, five respondents indicated that they do not participate in any surveys and five indicated that they do not make use of benchmarking practices

and were therefore not in a position to answer the questionnaire. The findings of the data collection will now be discussed.

6 Results and analysis

6.1 General

Although all respondents indicate that they make use of benchmarking, none has any formal benchmarking agreements with other companies. Benchmarking is mainly carried out by studying all information that can be obtained from competitors (85 per cent of respondents). Frequent informal visits to competitors are carried out by 67 per cent of the respondents. The respondents generally believe that benchmarking with competitors in the industry is the most important form of benchmarking (82 per cent of respondents), as compared with internal benchmarking (55 per cent) and “best-in-the-world” benchmarking (37

per cent). However, respondents also indicate that it is difficult to obtain relevant information from competitors.

6.2 Reasons for carrying out benchmarking

McNair and Leibfried (1992: 27) regard the reason for undertaking benchmarking as the most important aspect of the undertaking. For example, a company might benchmark to survive. Respondents were therefore asked to indicate their reasons for benchmarking.

Table 1 clearly indicates that the most common reasons for benchmarking are to improve quality (85 per cent) and to determine if a process is on par with “the best” (85 per cent). This agrees with various authors, who say that the major aim of benchmarking is to achieve superior performance. Whatever the reason for benchmarking, companies must make sure that the benchmarking exercise contributes to the objectives of the company as set out in its strategic plan.

Table 1
Reasons for benchmarking

Reasons	Respondents (Nn)	Respondents (%)
1. To determine if an operation/process is on par with “the best”	14	85
2. To determine if you can cut costs	8	50
3. To determine if you can improve products / services	10	67
4. To improve productivity	8	50
5. To improve overall quality	14	85
6. To find a source of new ideas	8	50
7. To achieve alignment with the changing market	5	33

6.3 Difficulties with benchmarking

Although benchmarking is very effective overall, it does have limitations (Weiss, 1996: 17). Table 2 gives an outline of the different problems experienced by respondents in the benchmarking process.

The main problems experienced by respondents are difficulties in obtaining information from competitors (85 per cent

of respondents) and difficulty in getting comparable benchmarking partners (100 per cent of respondents – see problems one and seven in Table 2). Notwithstanding these difficulties, however, benchmarking is here to stay. Any company should benchmark if it wants to attain “best-in-class” competitive capability, prosper in a global economy, and, above all, survive.

Table 2
Difficulties in benchmarking

Problems	Respondents (Nn)	Respondents (%)
1. Difficult to get a benchmarking partner	14	85
2. Time-consuming exercise	3	16
3. High cost (for example, external consultant)	5	33
4. No / lack of benchmarking skills/training	8	50
5. No real advantage to company	0	0
6. Difficult to get information from competitors	16	100
7. Lack of effective communication in the benchmarking process	3	16

6.4 Self-assessment

To benchmark successfully, companies must identify the problem areas, processes, departments or branches that they would like to improve. A useful method for obtaining this necessary information is a self-assessment exercise. Weiss (1996: 14) and Carey (1994: 121) believe that successful benchmarking depends on the knowledge a company has of its strengths and weaknesses and of its inner workings and processes. Self-assessment is the first step in analysis, determining areas of concern before comparison with competitors.

The present survey reveals that only 50 per cent of the respondents use self-assessment, and that of these respondents only 37 per cent use the information to benchmark against other companies. This raises a pertinent question: If companies do not use self-assessment (or any other method) to identify areas of concern that require benchmarking, how do they know what to benchmark?

6.5 Business excellence

Because benchmarking is a method used to lead a company to business excellence, respondents were asked to indicate which factor they identify as the single most important factor influencing business excellence. Customer satisfaction is identified as the most important factor by 50 per cent of respondents, whereas 33 per cent regard leadership

as the most important. Employee commitment is viewed by 16 per cent to be the most important factor. This confirms the fact that respondents regard customer products and/or services as the most important area to benchmark.

Respondents were requested to indicate which aid (or aids) they use for continuous improvement in business processes (see Table 3). All respondents report using performance management as an aid to improving business operations, whereas only 50 per cent use business process reengineering (BPR).

It is interesting to note that none of the respondents used total quality management (TQM) as a method of improving business operations on a continuous basis, and only one third use business excellence models (for example, the South African business excellence model, Malcolm Baldrige, and so on). This confirms the author's impression that the popularity of TQM has decreased over the last few years.

Table 3
Aids for continuous improvement

Aids	Respondents (Nn)	Respondents (%)
1. TQM	0	0
2. BPR	8	50
3. Performance management	16	100

4. Business excellence models	5	33
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Respondents indicate that effective benchmarking would improve business excellence by:

- improving staff retention and satisfaction (continuously updating work methods and skills);
- incorporating best practices (nationally and internationally);
- measuring improvement (by performance measurement) and
- comparing processes and the success of strategies.

Benchmarking is therefore perceived to be an effective method for companies to use in their search for business excellence.

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Recommendations and conclusions

The importance of benchmarking as an enabler of business excellence is realized by the financial sector, as is its ability to provide extensive benefits. However, according to the respondents, there are various problems hindering the effective implementation of benchmarking in the South African financial sector, for example, a lack of available benchmarking partners and of self-assessment.

To reap the benefits of a successful benchmarking exercise, companies are recommended to use the following steps:

- Develop internal performance indicators, and measure only those processes that will have a definite impact on business performance.
- Identify areas and processes that need improvement. Use self-assessment to determine the current state of performance. All departments in a company must undergo regular self-assessment exercises to identify problem areas before they become critical.
- Develop a benchmarking programme. It is important that the company decide what aspects or processes it wants to benchmark. Select a suitable competitor or other

organisation within the industry against which to benchmark. Concluding a formal benchmarking agreement is helpful, although obviously internal benchmarking is much easier to execute.

- Benchmark to determine the performance of the area, process or department in relation to other internal units, competitive companies or the industry in general.
- Identify best practices. Ensure there is consensus on what the best practices are.
- Continuously improve business processes. Striving towards business excellence is a never-ending process.

The bottom-line benefit of benchmarking is improved competitiveness and increased value in the eyes of customers. Effective use of benchmarking can assist in the development and implementation of actions to help companies achieve superior levels of customer service. This, in turn, will lead to increased market share, growth and improved financial results.

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